BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2019-241-EG - ORDER NO. 2019-622

SEPTEMBER 6, 2019

IN RE:	Petition of Dominion Energy South Carolina, Incorporated for an Accounting Order Related to the Installation of Advanced Metering Infrastructure	)))))	ACCOUNTING ORDER RELATED TO THE INSTALLATION OF ADVANCED METERING INFRASTRUCTURE

This matter comes before the Public Service Commission of South Carolina (the "Commission") on the Petition (the "Petition") of Dominion Energy South Carolina, Inc. ("DESC" or the "Company") pursuant to S.C. Code Ann. § 58-5-220 (2015), S.C. Code Ann. § 58-27-1540 (2015), and S.C. Code Ann. Reg. 103-825 (2012), seeking an order for regulatory and financial accounting purposes authorizing DESC to (i) defer as a regulatory asset the incremental depreciation expense, property taxes and amortization of costs of associated software incurred by DESC in connection with the installation of Advanced Metering Infrastructure ("AMI") for its retail electric customers, (ii) record carrying costs on the balance in the deferred cost regulatory asset at its embedded cost of long-term debt, (iii) reclassify the carrying value of the existing electric meters being replaced to an electric unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, (iv) reclassify the carrying value of the existing gas meter Encoder Receiver Transmitters ("ERT") devices being replaced to a gas unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement and (v) amortize the unrecovered plant regulatory asset accounts over the estimated composite remaining lives of the replaced meters and ERT devices, respectively.

As described in the Petition, AMI is an integrated system of smart meters, communications networks, and data management systems that enables two-way communication between a utility and its customers. Beginning in 2019, the Company plans to initiate its campaign to install AMI for residential and commercial electric customers and expects the AMI technology to provide efficiencies as well as the foundation for programs that will enhance the customer service experience. The efficiencies the Company expects from AMI are shorter outage restoration response times, reduction of truck rolls to read, disconnect and reconnect meters, lower contact center volume, enhanced employee and customer safety, and theft detection through tamper alerts and analytics. In addition to shorter outage restoration response times, AMI will also provide the benefit of more efficient reporting to interested parties after major storm events such as hurricanes and winter ice storms.

Specifically, Dominion maintains that the installation of AMI will enable the company to develop and provide programs that give customers the opportunity to take greater control over their energy usage, budgeting and experience through enhanced programs that allow the customer to (i) control the due date of their bill, (ii) interact with web-based energy usage analyzers, (iii) receive alerts based on energy usage for customer determined targets/thresholds, (iv) place same day or real time customer service requests, and (v) receive enhanced communications during outages. The Company also expects that

AMI will enhance the Company's operations through more precise system planning and grid optimization, predictive maintenance and rate modeling.

The installation of AMI represents a significant capital investment for the Company. As such, DESC anticipates phasing the AMI installation over several years. When complete, DESC expects to have installed over 760,000 electric AMI meters at a cost of approximately $98 million. Under Generally Accepted Accounting Principles ("GAAP") and in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts (as adopted by this Commission), the cost of assets such as AMI are recorded on the Company's balance sheet as fixed assets and charged to expense over the period in which these assets provide utility service and contribute to the earnings process. This systematic and rational allocation of an asset's cost over its service life and period of benefit is referred to as depreciation. Depreciation allows for the matching of the expense associated with a fixed asset to the revenue that the Company recognizes as a result of utilizing the asset to provide service. Under GAAP, this is referred to as the matching principle and is a fundamental concept in the accounting model. As part of electric utility rate making, annual depreciation expense is included within the utility's Commission approved base rates. The amount of annual depreciation expense that DESC expects to incur after installation of AMI is not currently included within DESC's existing retail electric base rates. Therefore, it is not possible for the Company to "match" this expense with revenue to be collected. With such a mismatch of expense to revenue, this event is a fundamental departure from the matching principle. Accordingly, DESC seeks authorization to defer as a regulatory asset the depreciation expense incurred by DESC associated with the installation of AMI until recovery of such amounts is reflected within DESC's retail electric base rates.

DESC will incur incremental property taxes associated with this investment. Although the incremental property taxes will decrease over time as AMI assets are depreciated, DESC estimates the initial additional annual property taxes to be approximately $3 million when the project is fully implemented. These additional property taxes are also not reflected in DESC's existing base rates. Accordingly, DESC seeks authorization to defer, as a regulatory asset, the incremental property tax expense incurred by DESC associated with the installation of AMI until recovery of such amounts is reflected within DESC's retail electric base rates.

DESC will also incur hosting software implementation costs associated with the AMI network that will be capitalized under GAAP and amortized to expense over the term of the hosting arrangement. These costs represent costs incurred by DESC to integrate the hosting arrangement with on premise software, coding, configuring and customizing the software. Upon full implementation, DESC anticipates having incurred capitalizable hosting software implementation costs of approximately $8 million that would be amortized ratably (straight-line) over the term of the hosting agreement. This amortization would represent an expense for DESC that currently is not reflected in DESC's existing base rates. Accordingly, DESC seeks authorization to defer, as a regulatory asset, the incremental amortization incurred by DESC associated with the implementation of hosting software until recovery of such amounts is reflected within DESC's retail electric base rates.

The installation of AMI will result in the existing meters being retired before they are fully depreciated. Therefore, in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts, DESC seeks authorization to reclassify the carrying value of the existing electric meters being replaced to an unrecovered plant regulatory asset account upon their retirement. DESC also requests that the balance in the unrecovered plant regulatory asset be included in the Company's retail electric rate base, consistent with the current treatment for this investment. Further, DESC seeks authorization to amortize the unrecovered plant regulatory asset account over the estimated composite remaining lives of the replaced meters.

The installation of electric AMI will necessitate the replacement of approximately 331,000 ERT devices, at a cost of approximately $31 million, on existing gas Automatic Meter Reading ("AMR") technology meters located within the Company's combination electric and gas service territory. There are significant benefits to the Company for AMI gas meters. The current ERT devices installed in its gas AMR meters have a battery life of 20 years. Many of these ERT devices are due for replacement beginning in 2022. DESC believes it is prudent to install gas ERT devices compatible with the AMI network with the installation of electric AMI in its combination electric and gas service territory. The gas meters can utilize the electric AMI network and eliminate the need for truck rolls to read the gas meters. In addition, the Company expects to realize similar efficiencies as expected in its electric business such as lower contact center volume, enhanced employee and customer safety, and theft detection through tamper alerts and analytics. In addition, the

Company maintains that gas customers can also enjoy the benefits of taking greater control over their gas usage.

The ERT devices being replaced will be retired before they are fully depreciated. Therefore, DESC seeks authorization to reclassify the carrying value of the existing ERT devices being replaced to a gas unrecovered plant regulatory asset account upon their retirement. DESC also requests that the balance in the unrecovered plant regulatory asset be included in the Company's gas distribution operations rate base, consistent with the current treatment for this investment. Further, DESC seeks authorization to amortize the unrecovered plant regulatory asset account over the estimated composite remaining lives of the replaced ERT devices.

Based on these facts, DESC requests in its Petition that the Commission issue an accounting order authorizing DESC to (i) defer as a regulatory asset the incremental depreciation expense, property taxes and amortization of implementation costs of associated software incurred by DESC in connection with the installation of AMI for its retail electric customers, (ii) record carrying costs on the balance in the deferred cost regulatory asset at its embedded cost of long-term debt, (iii) reclassify the carrying value of the existing electric meters being replaced to an electric unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, (iv) reclassify the carrying value of the existing gas meter ERT devices being replaced to a gas unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, (v) amortize the unrecovered plant regulatory asset accounts over the estimated composite remaining lives of the replaced meters and ERT devices, respectively, and (vi) granting such other and further relief as the Commission feels is just and proper.

By letter dated August 14, 2019, the South Carolina Office of Regulatory Staff ("ORS") informed the Commission that it did not object to the Company's Petition, provided that the issuance of the accounting order would not preclude the ORS, the Commission, or any other party from addressing the reasonableness of the costs associated with the Company's AMI investments and any return sought, including any carrying costs, in a subsequent general rate case or other proceeding. ORS recommended that the amortization expense be set at the level of depreciation currently approved in rates until the time of DESC's next general rate case.

ORS further recommended that, at the same time as DESC deploys AMI, DESC should offer residential and non-demand customers the option to "opt-out" of AMI deployment and, instead, have a meter where energy usage would not be communicated via radio frequency. Customers opting out of AMI deployment would bear any costs associated with the alternative metering arrangement. Additionally, ORS recommended DESC consider a medical waiver for the fees associated with the opt-out consistent with such waivers recently approved by the Commission in Docket Nos. 2016-354-E and 2018-262-E.

Finally, the ORS recommended that DESC file a Customer Education Plan with the Commission which provides specific detail of how the Company will communicate AMI deployment to its customers, the availability of the opt-out, and the benefits of AMI for customers.

By letter dated August 15, 2019, DESC indicated that it did not object to the ORS recommendations and that the Company committed to including an opt-out provision, including provisions for medical waiver for opt-out fees, available to certain customers prior to AMI deployment. DESC further committed to filing a Customer Education Plan within 90 days of the Commission's approval of the Company's Petition.

The Commission has fully reviewed the Company's Petition and the response by ORS. For the reasons set forth in the Petition and discussed above, the Commission finds that it is appropriate to grant the accounting order requested here, subject to the recommendations offered by the ORS.

Having determined that the relief requested in the Petition is consistent with the public interest, the Commission hereby orders as follows:

1. The Petition, subject to the recommendations of ORS, is granted. DESC is authorized to (i) defer as a regulatory asset the incremental depreciation expense, property taxes and amortization of implementation costs of associated software incurred by DESC in connection with the installation of AMI for its retail electric customers, (ii) record carrying costs on the balance in the deferred cost regulatory asset at its embedded cost of long-term debt, (iii) reclassify the carrying value of the existing electric meters being replaced to an electric unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, (iv) reclassify the carrying value of the existing gas

meter ERT devices being replaced to a gas unrecovered plant regulatory asset account, to be included in the Company's rate base consistent with the current treatment for this investment, upon their retirement, and (v) amortize the unrecovered plant regulatory asset accounts.

2. The annual amortization expense of the unrecovered plant regulatory asset accounts shall be set at the level of depreciation currently approved in rates until DESC's next general retail electric rate case or natural gas Rate Stabilization Act ("RSA") annual update, as applicable.
3. At the time of AMI deployment, DESC shall offer residential and non-demand customers the option to "opt-out" of AMI deployment and, instead, have a meter where energy usage is not communicated via radio frequency. Customers opting out of AMI deployment are responsible for any costs associated with the alternative metering arrangement.
4. DESC shall provide for a medical waiver for the fees associated with the opt-out consistent with such waivers recently approved by the Commission in Docket Nos. 2016-354-E and 2018-262-E.
5. Within 90 days of the issuance of this Order, DESC shall file a Customer Education Plan which provides specific detail of how the Company will communicate AMI deployment to its customers, the availability of the opt-out, and the benefits of AMI for customers.

6. This Order will remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:

Comer H. Randall, Chairman

Justin T. Williams, Vice Chairman

(SEAL)